

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The management of the City of Lincoln, Nebraska (the City) offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended August 31, 2004. Please consider this discussion in conjunction with the additional information provided in the Letter of Transmittal (beginning on page viii) and the transactions, events and conditions reflected in the City's financial statements (beginning on page 18).

### **FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at August 31, 2004, by \$1,199,927,797 (net assets). Of this amount, \$178,669,732 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$62,199,660. Of this amount \$40,934,924, or 66 percent, was an increase in governmental activities and \$21,264,736, or 34 percent, related to business-type activities.
- As of August 31, 2004, the City's governmental funds reported combined ending fund balances of \$187,197,133, an increase of \$25,255,860 in comparison with the prior year. Over half of this total amount, \$98,306,038, is available for spending at the City's discretion (unreserved fund balance).
- As of August 31, 2004, unreserved fund balance for the general fund was \$32,552,543, or 38 percent of total general fund expenditures.
- The City's total bonded debt increased by \$109,641,000 (19 percent) during the current fiscal year. Key factors in this increase were the issuance of \$126,310,000 in revenue bonds by Lincoln Electric System, and the issuance of \$35,000,000 in general obligation highway allocation fund bonds.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the year ended August 31, 2004. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general administrative services, public safety, streets and highways, health, planning and zoning, parks and recreation, libraries, aging services, job programs, urban development, mass transportation, engineering, self-insurance, and fleet management. The business-type activities of the City include water, wastewater and electric utilities; ambulance transport; sanitary landfill; golf courses; auditorium; and parking.

The government-wide financial statements can be found on pages 18-19 of this report.

## FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and government-wide activities.

The City maintains thirty-eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, the Street Construction fund, the Federal Grants fund, and the Community Health Permanent Endowment fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and most other governmental funds. A budgetary comparison statement has been provided for the General, Street Construction, and Federal Grants major funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 20-27 of this report.

Proprietary funds – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its parking facilities and lots; golf courses; auditorium; sanitary landfill; ambulance services; and wastewater, water, and electric systems. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its data processing, engineering, insurance, fleet management, telecommunications, and copy services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Wastewater and Electric Systems, all of which are considered to be major funds of the City. Data from the other enterprise funds are combined into a single, aggregated presentation. Internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for these funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 29-31 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 32-33 of this report.

## NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-68 of this report.

## OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its police and fire employees. Required supplementary information can be found on page 60 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,199,927,797 at August 31, 2004.

By far the largest portion of the City's net assets (71 percent) reflects its investment in capital assets (e.g., land, buildings, improvements, utility plant, infrastructure, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City Of Lincoln  
Condensed Statements of Net Assets  
August 31, 2004 and 2003**

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and Other Assets	\$ 293,558,771	239,136,689	282,564,460	297,306,590	576,123,231	536,443,279
Capital Assets	438,680,200	403,421,755	1,058,409,793	953,099,888	1,497,089,993	1,356,521,643
Total Assets	<u>732,238,971</u>	<u>642,558,444</u>	<u>1,340,974,253</u>	<u>1,250,406,478</u>	<u>2,073,213,224</u>	<u>1,892,964,922</u>
Long-Term Liabilities Outstanding	133,570,216	87,165,314	666,274,803	591,870,462	799,845,019	679,035,776
Other Liabilities	25,791,557	23,450,856	47,648,851	52,750,153	73,440,408	76,201,009
Total Liabilities	<u>159,361,773</u>	<u>110,616,170</u>	<u>713,923,654</u>	<u>644,620,615</u>	<u>873,285,427</u>	<u>755,236,785</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	361,516,579	353,228,671	496,144,600	513,682,743	857,661,179	866,911,414
Restricted	147,333,934	111,928,216	16,262,952	32,461,433	163,596,886	144,389,649
Unrestricted	64,026,685	66,785,387	114,643,047	59,641,687	178,669,732	126,427,074
Total Net Assets	<u>\$ 572,877,198</u>	<u>531,942,274</u>	<u>627,050,599</u>	<u>605,785,863</u>	<u>1,199,927,797</u>	<u>1,137,728,137</u>

An additional portion of the City's net assets (14 percent) represents resources that are subject to external restrictions on their use. The remaining balance of unrestricted net assets (15 percent) may be used to meet the government's ongoing obligations to citizens and creditors.

At August 31, 2004, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**City Of Lincoln**  
**Condensed Statement of Activities**  
**For the Years Ended August 31, 2004 and 2003**

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for Services	\$ 36,926,551	32,413,754	224,808,683	219,247,308	261,735,234	251,661,062
Operating Grants and Contributions	59,074,592	43,864,363	1,316,900	294,915	60,391,492	44,159,278
Capital Grants and Contributions	18,375,380	32,549,986	8,707,137	7,538,876	27,082,517	40,088,862
General Revenues:						
Property Tax	39,138,647	36,389,326	-	-	39,138,647	36,389,326
Sales and Use Tax	51,978,978	49,010,546	-	-	51,978,978	49,010,546
Other Taxes	22,018,572	20,190,242	2,234,490	565,790	24,253,062	20,756,032
Unrestricted Grants and Contributions	1,597,551	2,970,754	-	-	1,597,551	2,970,754
Unrestricted Investment Earnings	3,163,454	2,157,467	4,387,629	5,045,047	7,551,083	7,202,514
Other	895,935	1,478,257	373,759	164,763	1,269,694	1,643,020
Total Revenues	233,169,660	221,024,695	241,828,598	232,856,699	474,998,258	453,881,394
Expenses:						
General Government	28,475,396	26,781,326	-	-	28,475,396	26,781,326
Public Safety	66,461,665	60,312,147	-	-	66,461,665	60,312,147
Streets and Highways	24,066,450	21,627,658	-	-	24,066,450	21,627,658
Culture and Recreation	23,699,396	23,183,517	-	-	23,699,396	23,183,517
Economic Opportunity	16,778,622	18,803,783	-	-	16,778,622	18,803,783
Health and Welfare	18,122,416	17,232,211	-	-	18,122,416	17,232,211
Mass Transit	8,928,193	8,526,212	-	-	8,928,193	8,526,212
Equipment Management	1,017,244	580,423	-	-	1,017,244	580,423
Engineering Services	2,139,853	2,517,342	-	-	2,139,853	2,517,342
Interest on Long-Term Debt	3,701,385	3,510,748	-	-	3,701,385	3,510,748
Parking	-	-	4,962,873	4,512,610	4,962,873	4,512,610
Golf Courses	-	-	3,230,108	3,064,867	3,230,108	3,064,867
Auditorium	-	-	2,374,730	2,341,886	2,374,730	2,341,886
Sanitary Landfill	-	-	6,446,310	4,390,601	6,446,310	4,390,601
Ambulance Transport	-	-	3,684,221	3,905,011	3,684,221	3,905,011
Wastewater	-	-	15,461,420	13,205,150	15,461,420	13,205,150
Water	-	-	20,169,981	19,144,465	20,169,981	19,144,465
Electric	-	-	163,078,000	155,489,000	163,078,000	155,489,000
Total Expenses	193,390,620	183,075,367	219,407,643	206,053,590	412,798,263	389,128,957
Increase in Net Assets Before Transfers	39,779,040	37,949,328	22,420,955	26,803,109	62,199,995	64,752,437
Transfers	1,155,884	224,128	(1,156,219)	(224,517)	(335)	(389)
Increase in Net Assets	40,934,924	38,173,456	21,264,736	26,578,592	62,199,660	64,752,048
Net Assets - Beginning	531,942,274	493,768,818	605,785,863	579,207,271	1,137,728,137	1,072,976,089
Net Assets - Ending	\$ 572,877,198	531,942,274	627,050,599	605,785,863	1,199,927,797	1,137,728,137

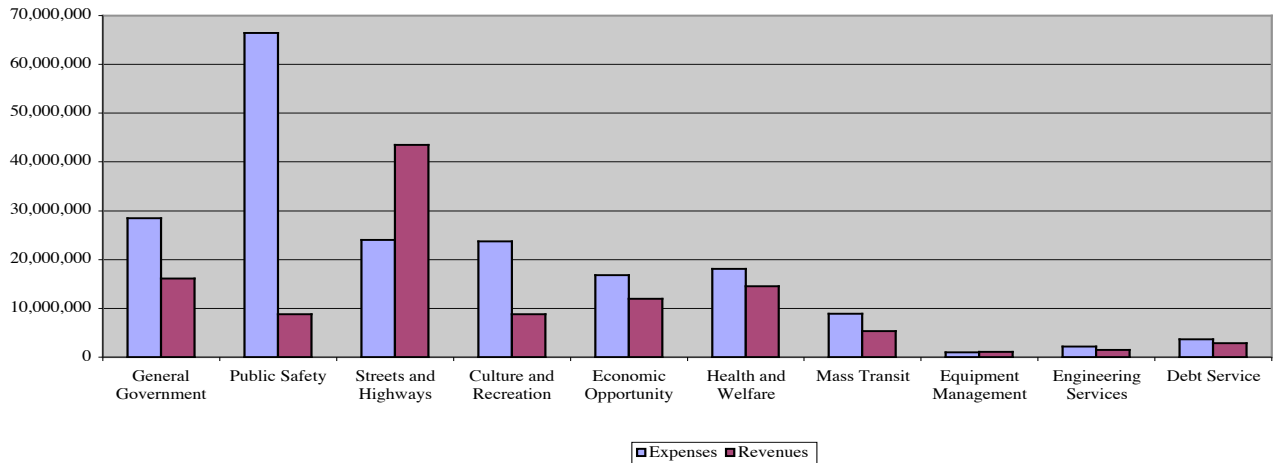
**GOVERNMENTAL ACTIVITIES**

Governmental activities increased the City's net assets by \$40,934,924, accounting for 66 percent of the total growth in the net assets of the City of Lincoln. Key elements of this increase are as follows:

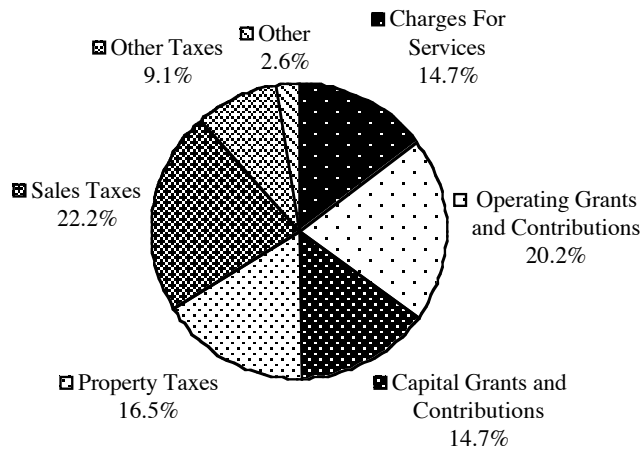
- The City's current year contribution to the Joint Antelope Valley Authority amounted to \$21,128,556.
- Property taxes increased by approximately \$2.7 million (7.5 percent) during 2004. The value created by new growth (improvements, new construction, additions of new property, and annexations) in the tax base was 4.5% over the prior tax base. Total growth in the tax base, which includes revaluations, annexations and other adjustments, was 14.5%. As a result of the percentage increase in property tax revenue in the budget being less than the percentage increase in the tax base, the tax rate per \$100 valuation decreased from \$.31452 to \$.29028 – a decrease of 7.7%.
- Net sales and use tax increased by approximately \$3 million (6 percent) during 2004. Legislation passed in 2002 and 2003 by the Nebraska Legislature expanded the sales tax base to include more services. This expansion generated additional collections beginning in December of 2003 due to implementation in October with a two month lag for the City to receive it.
- Other taxes increased by approximately \$1.8 million (9 percent). Wheel taxes increased effective January 1, 2004 and occupation taxes increased due to telecommunications collections, largely related to cell phone usage.

- Unrestricted investment earnings increased by approximately \$1 million (47%) during 2004. The City's implementation of an internal investment pool has provided for investing in more long-term securities at higher interest rates.

**Expenses and Program Revenues - Governmental Activities**



**Revenues By Source - Governmental Activities**



## BUSINESS-TYPE ACTIVITIES

Business-type activities increased the city's net assets by \$21,264,736, accounting for 34 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

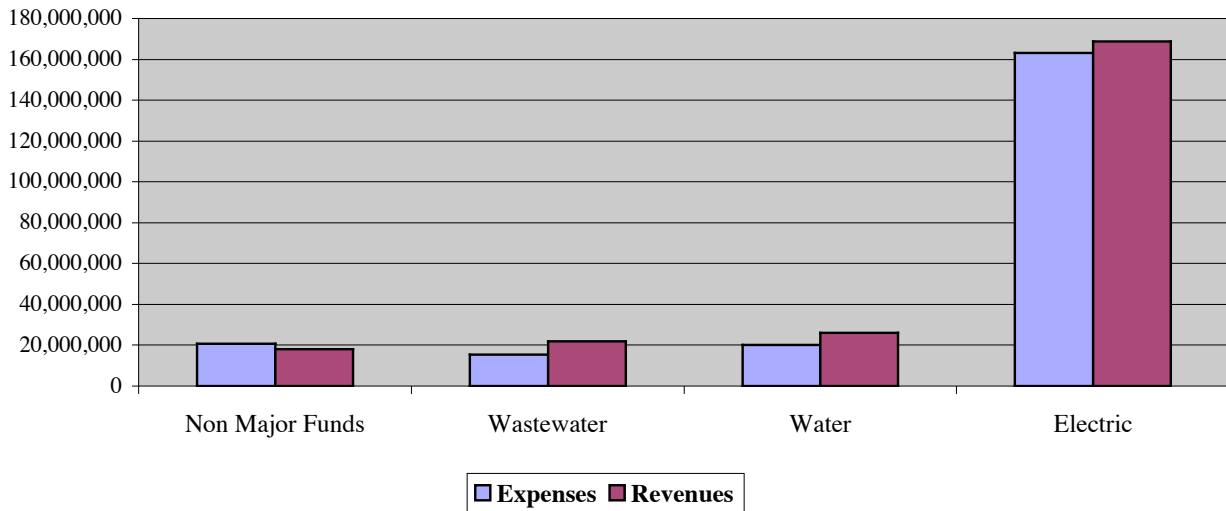
- Charges for services increased by approximately \$5.5 million, or 2.5 percent. The Water System revenues increased by \$1,285,099 (6.15%) due to a user fee increase of 7% implemented with the water billings beginning in February of 2003 and a 3% increase implemented with the water billings beginning in February 2004. Water usage for 2004 reflects an average year usage during normal weather conditions.

Wastewater revenues are also based on water usage. Even though total water pumpage for fiscal year 2004 was 868,483,750 gallons less than the prior year, an increase of 7% in user fees implemented in February 2004 resulted in an operating revenue increase of \$1,320,079 (9%).

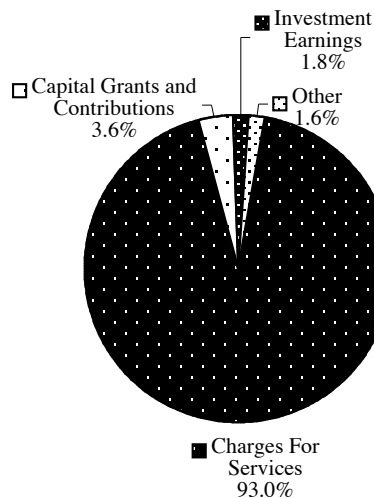
Revenues increased 2.4 percent for the Electric System with a rate increase put in place on April 1, 2003 producing most of the change. Cooling and heating degree days were below the prior year. Growth in the City remains constant with 2.2% more customers in 2003, now totaling nearly 119,000 customers.

- Lincoln Electric System (LES) operating expenses for 2003 were \$144,880,000, 7.4% above 2002 with power costs (replacement power from resource outages) and depreciation expenses providing most of the change. A settlement agreement between Nebraska Public Power District and LES related to the Power Sales Agreement for Cooper Nuclear Station was completed and signed by officials of both parties in 2002. The decommissioning fund liability established by LES was used to reduce power costs by \$4.9 million after the settlement and represents most of 2002 power costs reduction. Depreciation expense was above 2002 because of Salt Valley Generating Station starting partial commercial operation in 2003.

#### Expenses And Program Revenues - Business-type Activities



#### Revenues By Source - Business-type Activities



## **FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **GOVERNMENTAL FUNDS**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of August 31, 2004, the City's governmental funds reported combined ending fund balances of \$187,197,133, an increase of \$25,255,860 in comparison with the prior year. Of this total amount, 53 percent constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to:

- liquidate contracts and purchase orders of the prior period (\$31,197,144),
- pay debt service (\$15,331,663),
- generate income for the purpose of funding health and health-related programs for the citizens of Lincoln (\$37,000,000), and
- a variety of other restricted purposes (\$5,362,288).

The General Fund is the chief operating fund of the City. At August 31, 2004, the unreserved fund balance of the General Fund was \$32,552,543, while total fund balance reached \$35,973,419. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 38 percent of total general fund expenditures, while total fund balance represents 42 percent of that same amount.

The fund balance of the City's General Fund decreased by \$1,143,371 during 2004. The planned reduction in the fund balance of the General Fund is in compliance with City policy to appropriate balances that are in excess of 20 percent of the ensuing fiscal year's General Fund budget. This is accomplished by appropriating any excess over a 5-year period.

The Street Construction Fund had a total fund balance of \$38,732,945, which is to be used in the construction and maintenance of street and highways. The net increase in fund balance during 2004 in the Street Construction Fund was \$23,935,322. This increase was a result of proceeds received from the issue of \$35,000,000 of general obligation highway allocation bonds. Offsetting decreases were anticipated as a result of the Public Works Department's strategy to increase its capital construction program and to implement the acceleration of the awarding of construction contracts. An additional factor is the City's involvement in the Joint Antelope Valley projects and the related capital contributions made.

The Federal Grants Fund had a fund deficit of \$(328,692). Expenditures in the fund increased by \$2,091,260 (9 percent) over 2003, while revenues increased by \$5,006,265 (26 percent). These increases were primarily due to the City's Holmes Lake restoration projects, access Medicaid programs, and FEMA programs.

The fund balance of the Community Health Permanent Endowment Fund increased by \$1,027,195 during 2004. This increase can be attributed to a 30 percent decrease in the allocation of grant funds in the current year. The level of grant funding issued by the fund is relative to the amount of earnings realized on investments in the prior years, which has been impacted by consistently low interest rates.

### **PROPRIETARY FUNDS**

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Wastewater System, Water System, Electric System, and other enterprise funds amounted to \$23,650,451, \$20,161,662, \$66,414,000 and \$4,416,934, respectively, at August 31, 2004. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget were relatively minor (decrease of \$33,135 in appropriations) and can be briefly summarized as follows:

- \$(91,122) in miscellaneous decreases in general government activities.
- \$(142,681) in decreases allocated to police and fire activities.
- \$(28,351) in decreases allocated to street maintenance.
- \$3,840 in increases allocated to parks and recreation.
- \$225,179 in increases allocated for General Fund transfers to other City funds.

Variances between actual General Fund revenues and expenditures and the final amended budget included the following:

- \$1,161,583 positive variance in property taxes. Actual property tax collections were 96.5% for the 2003 levy, while estimated tax revenue is based on 90% collections as provided by the City Charter.
- \$1,480,342 positive variance in general government/miscellaneous function expenditures. This variance was the result of better than anticipated insurance and contractual services costs, and contingency funds left unspent.
- \$1,611,536 positive variance in public safety function expenditures. This variance was the result of better than anticipated salary costs and the delay of certain capital improvement projects and purchases of capital equipment.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **CAPITAL ASSETS**

The City's investment in capital assets for its governmental and business-type activities as of August 31, 2004, amounts to \$1,497,089,993 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, streets, bridges, storm sewers, electric plant, and water and sewer plant. The total increase in the City's investment in capital assets for 2004 was 10 percent (a 9 percent increase for governmental activities and an 11 percent increase for business-type activities).

Major capital asset events during 2004 included the following:

- A variety of street construction widening and expansion projects for existing streets and bridges continued. Along with new construction of streets and drainage projects, the construction-in-progress as of August 31, 2004, reached \$81,218,760.
- Purchase of ten buses for the StarTran transportation system at a cost of \$2,608,870.
- Addition of the City's share of the Public Building Commission's parking garage at a value of \$4,165,000.
- Construction of the Salt Valley Generating Station (SVGS) provided \$63 million to the construction work-in-progress, in addition to local construction related to an expanding customer base. The SVGS project represents a total of 165 megawatts of intermediate-load and peaking generation utilizing natural gas as the primary fuel in a simple cycle and combined cycle operation. The construction in simple-cycle mode was substantially completed in 2003 and combined-cycle operation was completed in mid 2004.



- Although the costs in 2003 and 2002 were insignificant to the balance sheet, an agreement with MidAmerican Energy Company was signed for a 100-mega-watt share of the 790 megawatt Council Bluffs #4 Unit slated to begin construction in 2003 and start commercial operation in 2007.
- Wastewater System capital assets increased by \$24,971,310 due to major project additions such as:
  - ✓ Northeast treatment plant - \$2,385,000
  - ✓ Theresa Street treatment plant - \$10,704,000
  - ✓ Trunk sewer improvements - \$7,184,000
- Water System capital assets increased by \$9,430,704 due to major project additions such as:
  - ✓ Pumping stations - \$1,123,000
  - ✓ Water distribution mains - \$1,625,000
  - ✓ Water transmission pump station and mains - \$2,745,000
  - ✓ Selected main replacements - \$785,000
  - ✓ Wellfield and water treatment plant - \$853,000
  - ✓ General system improvements - \$1,117,000

**City Of Lincoln**  
**Capital Assets (net of depreciation)**  
**August 31, 2004 and 2003**

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 44,757,798	40,506,899	14,652,983	14,371,950	59,410,781	54,878,849
Buildings	44,713,299	41,084,650	136,123,119	126,330,190	180,836,418	167,414,840
Improvements Other Than Buildings	31,350,298	31,285,551	256,349,615	231,820,817	287,699,913	263,106,368
Machinery and Equipment	30,937,792	28,980,115	10,726,204	10,462,767	41,663,996	39,442,882
Utility Plant	-	-	501,468,000	405,775,000	501,468,000	405,775,000
Infrastructure	201,785,086	191,786,564	-	-	201,785,086	191,786,564
Construction-in-progress	85,135,927	69,777,976	139,089,872	164,339,164	224,225,799	234,117,140
Total	\$ 438,680,200	403,421,755	1,058,409,793	953,099,888	1,497,089,993	1,356,521,643

Additional information on the City's capital assets can be found in Note 7 of the notes to the financial statements on pages 49-51 of this report.

### LONG-TERM DEBT

At August 31, 2004, the City of Lincoln had total bonded debt outstanding of \$681,530,000. Of this amount, \$98,815,000 comprises debt backed by the full faith and credit of the City and \$100,000 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

**City Of Lincoln**  
**Outstanding Bonded Debt**  
**(dollar amounts in thousands)**  
**August 31, 2004 and 2003**

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	\$ 98,815	61,554	-	-	98,815	61,554
Special Assessment Debt With Governmental Commitment	100	205	-	-	100	205
Tax-supported Revenue Bonds	10,255	10,810	-	-	10,255	10,810
Revenue Bonds	-	-	572,360	499,320	572,360	499,320
Total	\$ 109,170	72,569	572,360	499,320	681,530	571,889

The City's total bonded debt increased by \$109,641,000 (19 percent) during 2004. The key factor in this increase was the issuance of \$126,300,000 in revenue bonds by Lincoln Electric System to refund \$45.3 million of 1993 revenue bonds and provide construction funds to complete the SVGS and maintain the construction schedule of Council Bluffs #4 Unit.

The City also issued \$35,000,000 in general obligation bonds to finance items in its 2004-2009 street capital improvements program including (1) rehabilitation of arterial and residential streets, (2) studies, design,

easements and right-of-way acquisitions, (3) miscellaneous emergency and safety projects and operating improvements, (4) portions of the South Beltway project, and (5) improvements to South 14<sup>th</sup> Street, West Fletcher, and portions of the Antelope Valley Project.

The City maintains the following credit ratings:

	Moody's Investors <u>Service</u>	Standard And <u>Poor's</u>	Fitch Investors <u>Service</u>
General Obligation Bonds	Aaa	AAA	
Municipal Infrastructure			
Redevelopment Fund Bonds	Aa2	AAA	
Antelope Valley Project Bonds	Aa2	AA	
Water Revenue Bonds	Aa2	AA+	
Wastewater Revenue Bonds			
MBIA insured	Aaa	AAA	
Underlying	Aa2	AA+	
Parking Revenue Bonds	A2	A	
Electric Revenue			
1998 Bonds	Aa2	AA	AA
2001 Bonds	Aa2	AA	AA
2002 Bonds	Aa2	AA	AA
2003 Bonds	Aa2	AA	AA
Commercial Paper – tax exempt		A1+	F1+

Under the City's Home Rule Charter, there is no legal debt limit.

Additional information on the City's long-term debt can be found in Note 9 of the notes to the financial statements on pages 52-57 of this report.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- Property tax revenue required to fund the 2005 budget increased \$1,585,694 or 4.8% over the prior year. Total growth in the tax base is 3.1%. The estimated impact on the property tax rate in order to fund services and debt service is expected to be an increase of 1.6%.
- Sales tax collections for 2004 were below projections. The expansion of the sales tax base affected sales tax collection for only nine months of that year. During 2005 the City will receive the benefit of the sales tax base expansion for all twelve months, estimated to provide an additional \$360,000 in revenues. 2005 projections reflect a 5.1% increase over 2004 projections.
- Occupation tax revenues are expected to decrease by 4.8% in relation to telecommunications taxes. In addition, projections for 2004 included estimates of a one-time payment from the City's cable television provider over amounts owed the City that were in dispute.
- Recreation receipts are expected to increase by \$116,797 (6.2%) due to routine increases in fees for various programs and expanded recreation services, some of which are at new sites and generate new revenue.
- An increase of 911 Surcharge on phone lines from \$.75 to \$1.00 per month became effective January 1, 2005. Revenue is used for operations as well as capital improvements.
- A 5% water rate increase and a 7% wastewater rate increase were adopted by the City Council and become effective January of 2005.

All of these factors were considered in preparing the City's budget for the 2005 fiscal year.

At August 31, 2004, unreserved fund balance in the general fund amounted to \$32,552,543. The City of Lincoln has appropriated \$5,085,200 of this amount for spending in the 2005 fiscal year budget. The use of available fund balance aids the City in avoiding the need to raise additional property taxes during 2005.

#### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Lincoln's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lincoln, Finance Department, 555 South 10<sup>th</sup> Street, Lincoln, NE 68508.

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